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CENTRAL INTELLIGENCE BULLETIN

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*Italy: The Christian Democrats' three coalition partners have formally called for the Moro government to be reconstituted, but there is no assurance that at today's meeting the Christian Democratic directorate will be able to agree to such a move.

The problem for Premier Moro and his Christian Democrats still centers on reconciling intraparty differences over further stabilization measures and the implementation of basic reforms.

[redacted] a new government must be established by the end of July in order to prepare next year's budget for parliamentary consideration in September. Even more serious, however, would be the effect on the economy of a period of prolonged political instability.

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The Socialist leadership is convinced that a continuation of the center-left government is the only acceptable solution to the current impasse because they fear their party must avoid new elections at all costs. The Socialist central committee is expected to meet on 3-4 July but party differences may be accentuated if, as a top Socialist leader has indicated, party chief Nenni's close supporters make a "major attempt" to remove some of the Lombardi faction which was instrumental in provoking the crisis.

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West Germany - East Germany: [West Germany is apparently studying a plan to ransom some 500 political prisoners in East German jails for \$5 million in goods.]

[The US Mission in Berlin was told by an East Berlin attorney on 25 June that the deal had been agreed upon, and that Evangelical Church representatives would handle the matter for the Bonn government. He indicated that the East German regime is interested in obtaining butter, special ores, and chemical fertilizer under the arrangement.]

[The East Germans proposed in May that church officials make cash payments for prisoners Bonn sought to have released. More important from the Ulbricht regime's standpoint than either cash payment or commodities is the opportunity afforded by the prisoner exchange to demonstrate to the West Germans the advantages of bilateral negotiations.]

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DAILY BRIEF

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France-EEC: [Some French officials are again warning that West German refusal to agree to the unification of Common Market grain prices will delay progress indefinitely in the Kennedy Round tariff negotiations.]

[In a talk with US officials last week, Olivier Wormser, the chief economic official in the Foreign Ministry, insisted that France must have an early decision on a specific price for grains. He asserted that the Kennedy Round talks could not proceed in the absence of such a decision and that the future of the EEC itself would be called into question.]

[A Finance Ministry official has also stated that Bonn's continued refusal to settle the grain-price issue would make it "easy" for those in France who oppose the Kennedy Round to delay the negotiations. He added, however, that other French officials understood that it is unrealistic to expect the Germans to budge until after next year's election, and are attempting to find some way of proceeding with the Kennedy Round.]

[The US Embassy in Paris believes that De Gaulle will have to decide shortly how hard to push the Germans on this question--especially in view of his talks with Erhard beginning on Friday. On balance, the embassy is inclined to believe that De Gaulle will not press the Germans but may use the resulting impasse to place the blame on Bonn for any failure of the Kennedy Round.]

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Pakistan: The Pakistani Government is stepping up its attacks on US military assistance to India.

In a newspaper interview last week, President Ayub said that US policy is "based on opportunism and is devoid of moral quality," because "now Americans do not hesitate to let down their friends." On his way to the Commonwealth Conference which opens next week in London, Ayub apparently plans to brief Iranian and Turkish leaders regarding a "new policy trend" adopted by Pakistan.

The government has also partially removed restraints on press treatment of the recent US decision to raise the level of support for India's military program. Pakistani newspapers consequently are hitting harder at the old theme that aid to India reduces New Delhi's interest in settling the Kashmir dispute with Pakistan.

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Italy - Communist China: Communist China and Italy have agreed to the establishment of a permanent quasi-official Italian trade office in Peiping. Although the Italians claim no decision has yet been taken on letting the Chinese set up a similar office in Rome, the Chinese have already made it clear that no Italian trade office could be established in Peiping without a comparable Chinese mission in Rome. In any event, Rome is unlikely to take any further action on this matter until the current government crisis is resolved.

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France - Eastern Europe: [French relations with Eastern Europe may receive considerable attention at De Gaulle's next press conference now scheduled for 23 July. The US Embassy has information indicating that De Gaulle will emphasize the resurgence of nationalism in Eastern Europe as well as France's historic ties with that area. De Gaulle may follow up his press conference by making some specific moves to improve relations with Rumania--possibly in the atomic energy field--when Premier Maurer visits Paris on 26 July.]

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- The Special Assistant for National Security Affairs
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- The Under Secretary of State for Political Affairs
- The Deputy Under Secretary of State for Political Affairs
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- The Director of Intelligence and Research

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- Commander in Chief, Atlantic
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- The Director of Naval Intelligence, Department of Navy
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